

# Bond Election Advisory Task Force

*January 23, 2012, 6:00 pm  
One Texas Center  
505 Barton Springs Rd., Rm. 325*

**[www.austintexas.gov/department/bond-development](http://www.austintexas.gov/department/bond-development)**

# Capital Improvement Program and Bonds 101

*BEATF – January 23, 2012*

# What is a CIP?

- Improvements to real property
- Improvements to existing infrastructure
- New facilities for public purpose
- Rehabilitation of existing facilities
- Projects > \$50,000
- Useful life of at least four years
- Fleet vehicles, Information technology
  - Purchases > \$25,000

# What is a CIP?

- Infrastructure Assets
  - Streets
  - Sidewalks
  - Intersections
  - Water, wastewater facilities
  - Drainage, flood mitigation
  - Electric distribution, power plants
  - Information technology infrastructure

# What is a CIP?

- Public Facilities
  - Libraries
  - Fire and EMS stations
  - Police Substations
  - Parks and Trails
  - Recreation Centers
  - Community health clinics

# The City's CIP

- City spends approximately \$600 million/year on the CIP
- Number of active capital projects:
  - 500 at any given time
  - About 200 in construction phase
- Active projects total \$3.4 billion in appropriation
- CIP Plan includes appropriation requests for future years

# Planning the CIP

- Identified needs and priorities
  - Departmental or organizational planning efforts
  - Citizen input and feedback
  - Technical assessment of infrastructure and needs to maintain services
  - Council direction on priorities
- Departmental CIP plans
  - Development of programs and projects to address needs and priorities
  - Prioritization of programs and projects given funding, scheduling, other factors

# Typical Capital Project Components

- Identify need or issue
- Planning
  - Scope
  - Budget/Funding
  - Schedule
  - Risks
- Design
- Bid (Procurement)
- Construction



# Factors That Can Impact a Project

- Coordination with other government entities and stakeholders
- Unknown site conditions
- Changes in scope, budget, and/or schedule
- Available funding for project
- Weather conditions
- Special events, traffic considerations
- Many other factors – the larger and more complex a project, the more that can happen!

# Funding the CIP

- Voter-approved debt (G.O. Bond Programs)
  - Ad-valorem (property) tax supported
- Non voter-approved debt
  - Used less often – voter approved is priority option
  - Typically only for urgent and/or critical needs
- Revenue-supported investment
  - Debt or cash through revenue generated by City
  - More common for utilities (Electric, Water)
- Pay-as-you-go financing (operating budget)
  - Smaller, recurring investments (fleet, IT, minor rehab)

# Types of Debt

- Public Improvements Bonds (PIBs)
  - Secured by full faith and credit of issuer; Pledges the issuer's taxing authority
  - Long-term debt and require voter approval
  - Used for bond programs
- Certificates of Obligation (COs)
  - Long-term debt and do not require voter approval
  - Can be used for construction, acquisition, etc.
- Contractual Obligations (KOs)
  - Can you move it? Then use KOs.
  - Short-term debt and do not require voter approval
  - Repaid through a revenue stream of dept. operating appropriation

# Capital vs. Operating Budgets

- Capital projects typically funded through debt and other sources which are paid over multiple years
- Capital projects and funding are multi-year vs. single year for operating
- New multi-year appropriations added to capital budget on an annual basis
- Capital projects may have an impact on City's operating costs
  - Ex: Staff required to operate recreation center or maintenance costs for streets

# Financial Policies

- Numerous financial policies related to operating and capital budgets, debt management, utilities, etc.
- Key capital and debt policies include:
  - GGCIP Capital Contingency of 3%
  - Priority to fund capital expenditures with cash or voter approved debt
  - Debt-to-AV Ratio – 2.0% or less

# General Obligation Bond Debt Capacity Analysis and Budget Considerations

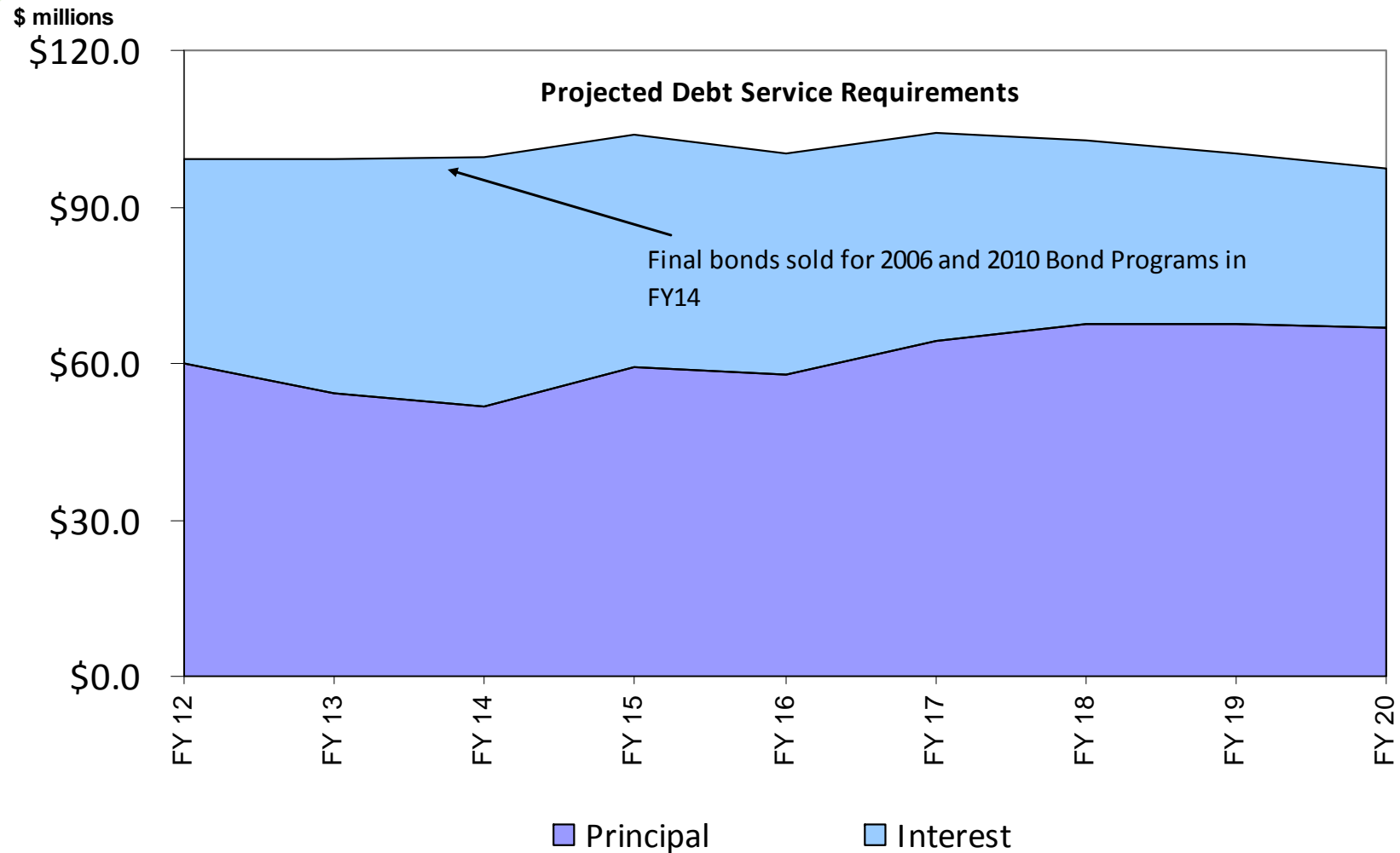
# Overview of General Obligation Debt

- State Law and City Charter provide authority to issue general obligation debt:
  - To fund permanent public improvements with long-term life cycles
  - Secured by “full faith and credit” of the City’s authority to levy ad valorem taxes to pay the debt service
  - Viewed as lowest credit risk to investors
  - Attracts lowest interest rates

Types of G.O. Debt	Purpose	Voter Approval	Term
Public Improvement Bonds (PIBs)	Capital Assets	Yes	20 yrs
Certificates of Obligation (COs)	Real Property, Off-cycle capital needs	No	10 - 20 yrs
Contractual Obligation (KOs)	Equipment	No	5- 10 yrs

- Tax rate established annually as part of budget process
  - Current tax rate is 48.11 ¢ per \$100 assessed value
  - Includes 12.60 ¢ to fund principal & interest payments on bonds

# General Obligation Debt Service





# Rating Agency Factors

- Economy and Demographics
- Debt burden
  - Debt to assessed value (AV)
    - Financial Policy:  $\text{Debt/AV} < 2\%$
  - Debt per capita
  - Debt service as percent of total tax rate
- Debt retirement
  - Percent of principal paid off in 10 years
- Financial Performance & Management
  - Depth of experience
  - Past performance against original plans
  - Financial policies, including reserve policies

# Current Metrics

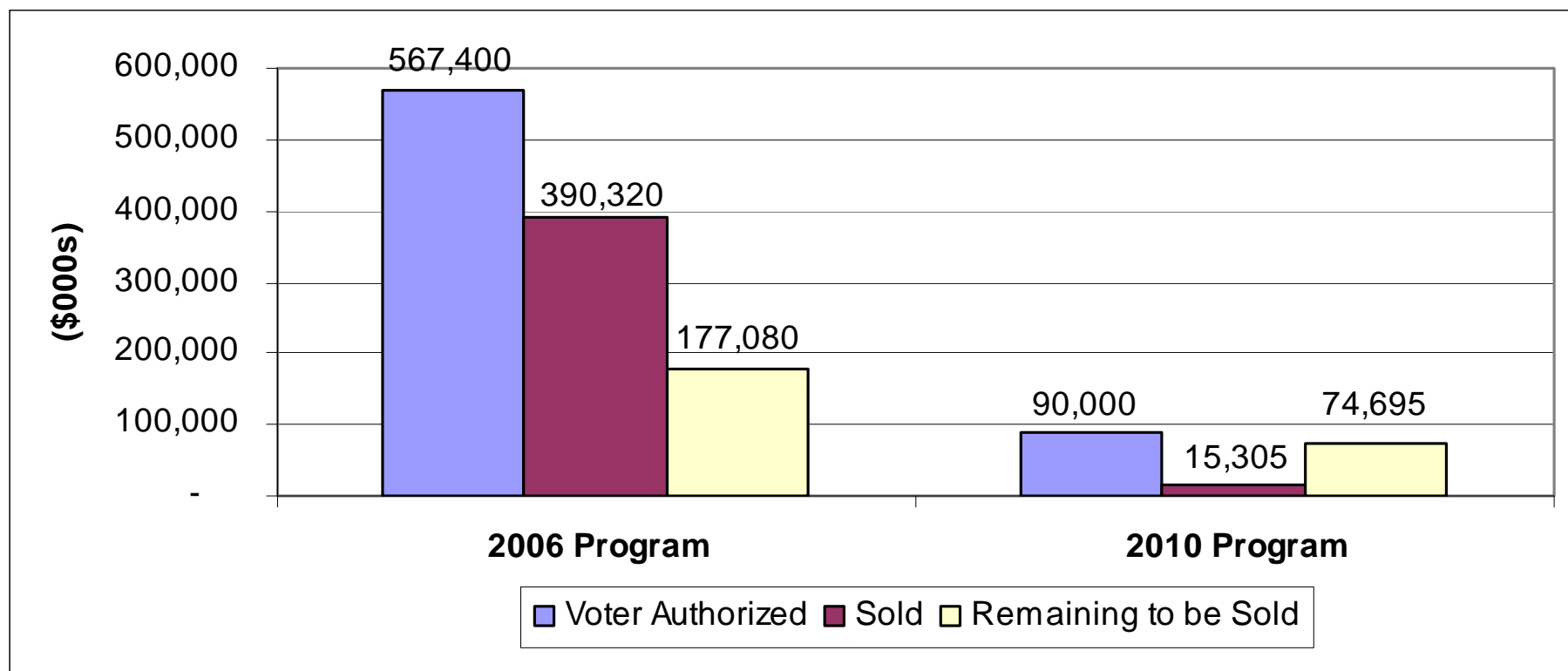
## How Austin Compares ...

	<u>Debt per Capita</u>	<u>Debt to AV</u>	<u>Bond Rating</u>			<u>Debt Service % of Tax Rate</u>
			<u>Moody's</u>	<u>S&amp;P</u>	<u>Fitch</u>	
<b>Austin</b>	\$1,287	1.24%	Aaa	AAA	AAA	26%
<b>Arlington</b>	\$933	1.87%	Aa1	AA+	AA+	32%
<b>Corpus Christi</b>	\$858	1.50%	Aa2	AA-	AA	33%
<b>Dallas</b>	\$1,532	2.22%	Aa1	AA+	N/A	33%
<b>Forth Worth</b>	\$773	1.43%	Aa1	AA+	AA+	18%
<b>Houston</b>	\$1,433	2.16%	Aa2	AA	AA	25%
<b>San Antonio</b>	\$944	1.71%	Aaa	AAA	AAA	37%
<b>Moody's Median (cities &gt; 500,000 pop.)</b>	\$1,525	2.20%				

Source for Debt per Capita and Debt / AV: Fiscal Year 2010 CAFR's

# Existing Bond Programs

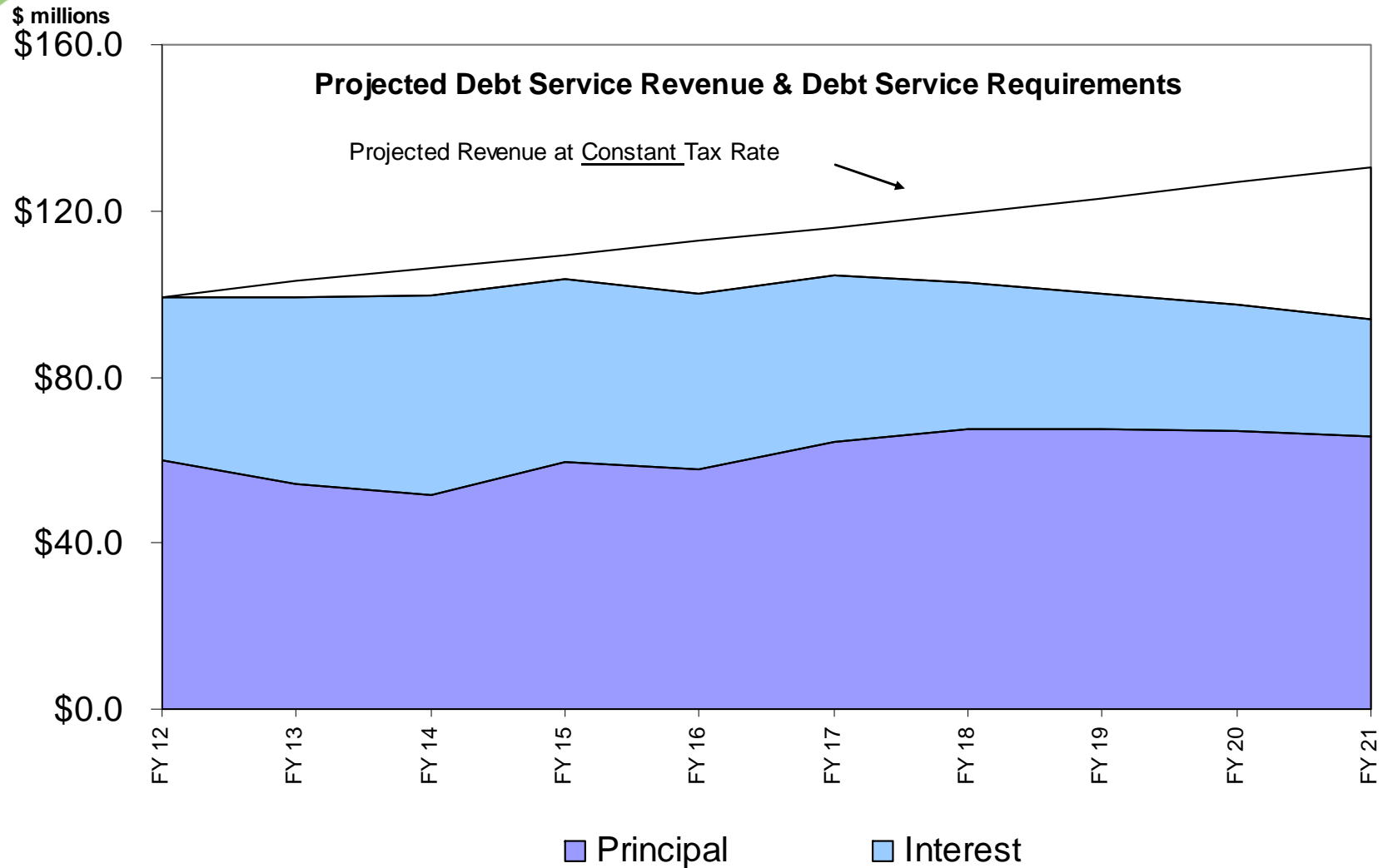
## Debt Sale Status



# Capacity Analysis – Assumptions

- Current debt service tax rate of 12.60 cents is starting point for analysis
- Reflects planned bond sales of \$252 million for 2006 and 2010 bond programs
- Debt service structured to repay more than 50% of outstanding principal in 10 years
- Conservative growth in assessed property value
- Conservative borrowing rates
- New bonds to be sold over 6 years
- Preserves long-term bonding capacity to address future capital needs

# Capacity Analysis - Assumptions



# Modeling Potential Bond Programs

- 4 scenarios
  - Debt service tax rate
  - Constant, 1-cent above, 2-cents above, 3-cents above
  - All scenarios assume a 3% annual growth in assessed value

Scenario	Tax Rate	Bond Election Amount	Tax Rate Impact		
			FY14	FY15	FY16
Scenario 1	constant (12.60 cents)	<b>\$385 M</b>	constant	constant	constant
Scenario 2	1-cent above (13.60 cents)	<b>\$500 M</b>	<b>+ 1 cent</b>	constant	constant
Scenario 3	2-cents above (14.60 cents)	<b>\$625 M</b>	<b>+ 1 cent</b>	<b>+ 1 cent</b>	constant
Scenario 4	3-cents above (15.60 cents)	<b>\$725 M</b>	<b>+ 1 cent</b>	<b>+ 1 cent</b>	<b>+ 1 cent</b>

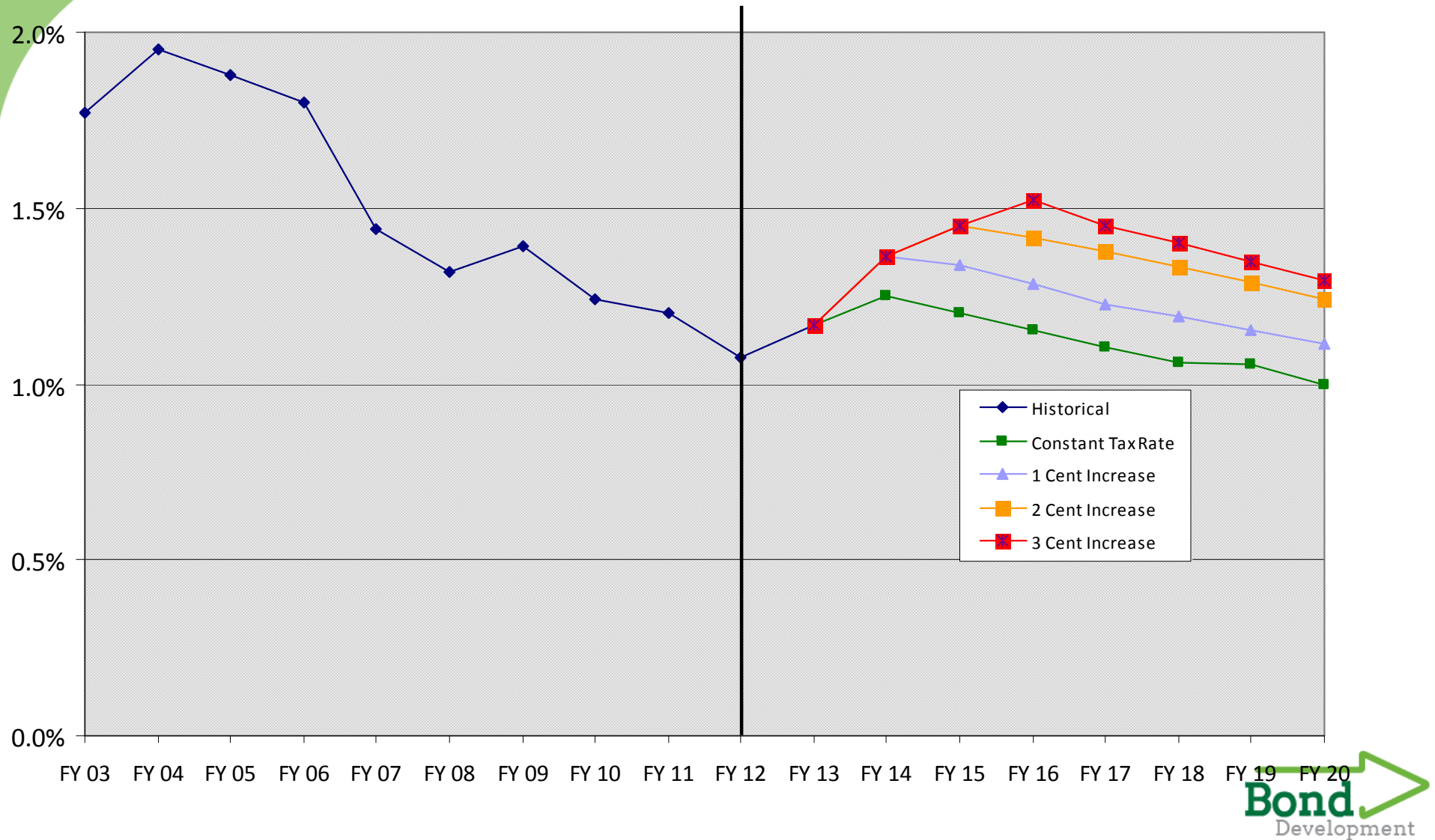
# Estimated Effect on Property Tax Bill

<u>Scenario</u>	Impact on Tax Bill
	<u>Typical Home</u>
Constant	\$38
1-cent above	\$60
2-cents above	\$83
3-cents above	\$105

- Projected increase in tax bill by 2016 for a \$200,000 home

# Debt to Assessed Value

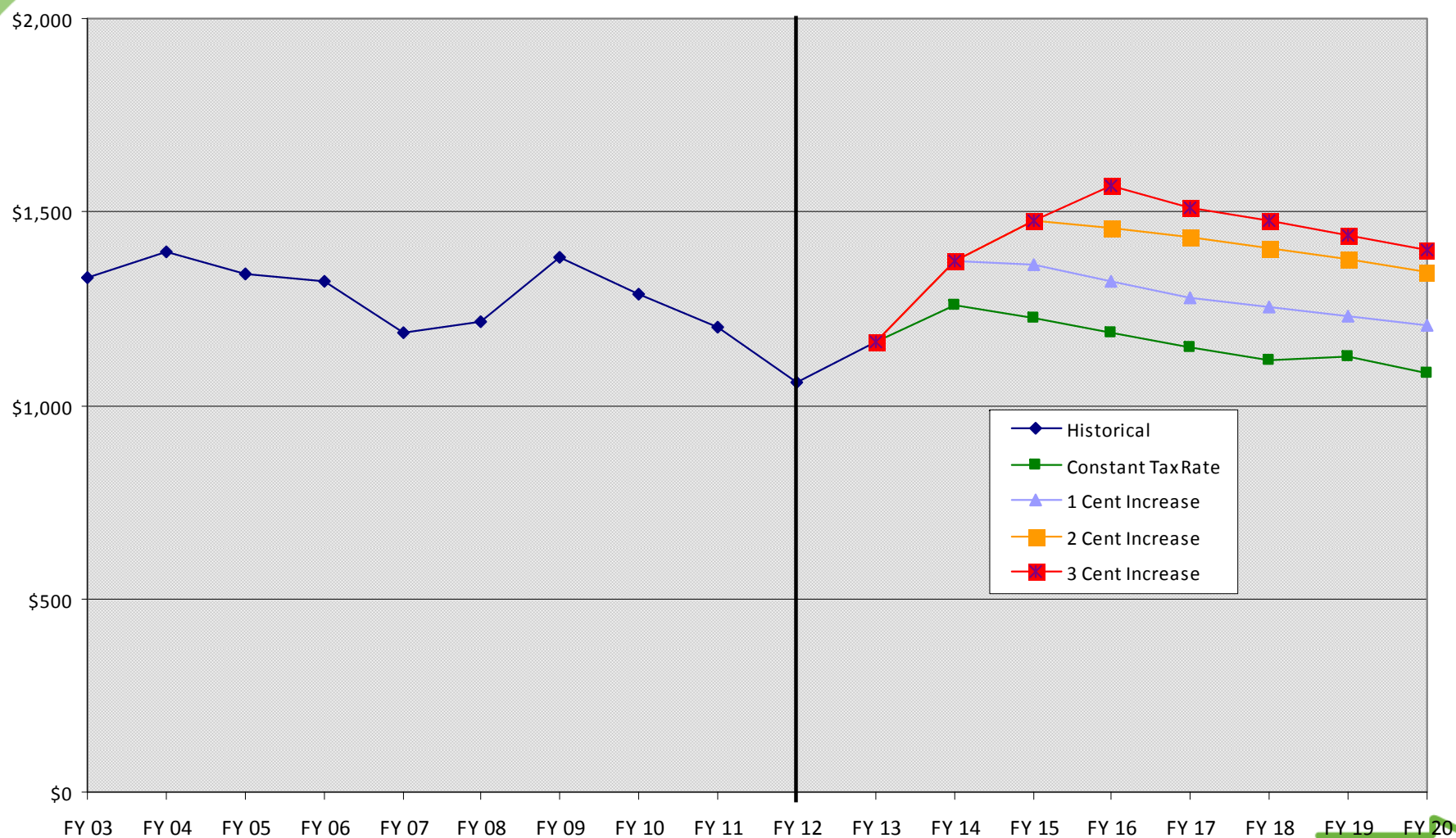
Debt / Assessed Valuation  
Historical & Projected for Bond Capacity Scenarios





# Debt Per Capita

Debt / Per Capita  
Historical & Projected for Bond Capacity Scenarios



# Considerations

## **Considerations in Determining Bond Program Amount**

- Maintaining financial metrics within historical ranges considered by credit rating agencies
  - Debt to assessed valuation, Debt per capita
- Overall affordability for residents into the future
  - Increases in O&M tax rate likely necessary in upcoming years to pay for cost increases in basic City services
  - Utility user fees to increase for infrastructure
  - Overlapping tax burden
- Preserving long-term bonding capacity for future needs

# Next Steps

## Bond Election Advisory Task Force

- Starting point is \$1.3 B Needs Assessment
- Develop 3 potential programs
  - \$200 M, \$300 M, \$400 M
  - Similar in size to 2006 bond program, after adjusting for change in funding methodology for watershed protection projects (cash generated by drainage fee)

## Urban Rail

- Continue evaluation of system – alignment, segments, phasing
- Financial analysis with various levels of general obligation bond funding
- Feasibility of other funding sources to be assessed
  - Federal funds, tax increment financing, etc.

# Questions & Discussion

# Future Agenda Items

- Complete any pending items from this meeting
- Tentative schedule for staff briefings:
  - January 30, 2012:
    - Imagine Austin
    - Overview of Guiding Principles, Needs Assessment
    - Preparation to receive initial staff-prioritized project/program lists
- Other items?